Marek **Belka**

POLAND

Marek Belka was the President of the Narodowy Bank Polski in 2010-2016 and the Prime Minister of the Republic of Poland over the period 2004-2005. He is a Professor of Economics. Professor Marek Belka specialises in applied economics, monetary policy and contemporary economic thought. During the course of his career he has served as Deputy Prime Minister, Minister of Finance, Chairman of the Council for International Coordination for Iraq, Director of Economic Policy in the Coalition Provisional Authority, Executive Secretary of Economic Commission for Europe, and as the Director of the European Department at the International Monetary Fund. Among other international positions, he has chaired the World Bank/IMF Development Committee, the Vienna 2.0 Initiative Steering Committee and served as a Member of the Steering Committee of the European Systemic Risk Board and the Central Bank Governance Group at the Bank for International Settlements.

The Polish economy at the end of the 1980s was in an extremely dramatic condition: there was a deep recession, skyrocketing inflation, empty shelves in stores, a destabilised foreign exchange market and the morale of executive teams in state-owned enterprises was broken.

The economic program of Tadeusz Mazowiecki's government, prepared by Deputy Prime Minister Leszek Balcerowicz and introduced on 1 January 1990, came to be called a shock therapy (or the 'big bang'). It was comprised of three main components:

1. Far-reaching adjustment and liberalization of prices
2. Elimination of subsidies for state-owned enterprises
3. Introduction of currency convertibility and the opening of the economy to international competition.

As a result, many enterprises, and even whole branches of manufacturing industry lost their raison d'être almost overnight. The elimination of the usually inefficient state-owned companies was, in some sense, the essence of the transformation. It released the unused means of production (machines, raw materials, capital), employees, and above all—the market space, to be filled by new, private, domestic entities on the one hand, and on the other, by imported goods.

The development of institutions

The shock therapy was applied in Poland at the level of macroeconomic policy (with the exception of monetary and currency policy), but not in the area of market institutions, where changes took place more gradually. The most important institutions established in the first half of the 1990s included:

- a modern tax system
- a framework for budget policy
- establishing the capital market—the Warsaw Stock Exchange and its supervising body, the Securities and Exchange Commission
- the creation of the Antitrust Office.

Further institutional changes were connected to Poland's accession to the European Union and resulted from the need to adapt Poland's laws and institutions to the acquis communautaire. It is notable that as early as 16 December 1991, Poland signed with the European Community the so-called European Agreement, in which we promised to gradually align our legislation to European law. Every draft bill had to be checked for conformity with the aquis, and when it did not, a timetable for its realignment was determined. The process of European integration had thus begun.

In the period from 1998 to 2000, additional important systemic changes were introduced:

- change of the administrative division of the country
- reform of the healthcare financing system
- education reform
- pension reform.

"Green island"

Poland's economic prospects significantly improved after accession to the European Union in 2004. This resulted in a strong acceleration of economic growth, and especially in a rapid increase in investment (both domestic and foreign) and an unprecedented increase in exports. At the same time, a wide stream of resources from EU development funds started to flow into Poland, which allowed for a huge increase in the scale of infrastructure investments. Labour productivity and income increased, unemployment fell and the Polish economy began to fully experience the rewards of many years of often hard and painful reforms, as well as the new opportunities created by its accession to the EU. Polish society and politicians, however, were divided over the euro and decided at the time to hold on to the national currency, the złoty.

The real test of the transformation period's reforms came with the outbreak of the global financial crisis in 2008. Poland came away unscathed as the only EU country which avoided recession at that time. This was widely discussed in the world and our country became close to a synonym of an economic miracle, or a 'green island' of economic growth against a red background a continent-wide recession. The reasons for this remarkable performance are usually attributed to the Polish economy's very strong foundations, its healthy banking sector, and also the fact that we had a freely floating exchange rate. In response to the collapse of international trade in the autumn of 2008, the Polish złoty weakened significantly, and as a result, income from exports expressed in the national currency did not fall and caused no pressure on employment or fire sales of assets. There was no decline in the credit activity of the banking system and consumption growth remained solid. In short, Poland emerged unscathed from the hardest phase of the crisis. This is clearly demonstrated comparing cumulative GDP growth rates in the period between 2008 and 2016, when our country outclassed the rest of the EU.

European Dimension of Polish transformation.

Poland had been benefitting from European integration long before it joined the EU in 2004. As mentioned before, the process of aligning Polish institutions, laws and regulations with the aquis communautaire began virtually from the outset of the transformation. The reforms introduced by the authorities got a solid benchmark, which minimised the potential for chaos. More importantly, the clear orientation towards future membership in the European Community provided strong policy continuity. Between 1989 and 2004, Poland had five different political coalition in power, eight prime ministers and 11 finance ministers. Despite this, there were no major changes in either economic or foreign policy. This fact alone does much to explain Poland's progress during that time.

Access to the European common market was another big advantage for the Polish economy. With a strategic location, low wages and a good climate for business, Poland's economy boomed. Foreign capital inflows, although never as overwhelming as in smaller countries in the region, turned Poland into a manufacturing hub for global companies. A relatively big internal market enabled new domestic firms to grow. Many of them turned to export and started expanding overseas. The success of Polish agriculture and food-processing industries was particularly spectacular.
For Polish people, the EU's structural funds are the most visible and obvious benefit of EU membership. No wonder. Everywhere in Poland, you can see signs of the EU's presence as many highways, railways, and cultural sites have been co-financed by

'Brussels'. Even though eurosceptics in the current ruling party routinely express dissatisfaction with the EU, popular support for European integration remains decisive at almost 80%. The net inflow of EU funds reached 3% of GDP per annum. Absorption was very smooth. Public investment in Poland was among the highest in the EU thanks to EU funds. In sum, European funds have been essential both for raising the long-term potential of the economy and current investment demand.

Poland was and is a big beneficiary of European integration and is arguably the best example for what has been sometimes labelled 'the European Union convergence machine'.

Final considerations

Poland's economic transformation is widely seen in the world (and in our country as well, although not so unconditionally) as a great success. The post-transformation recession was the shortest and least severe among all the countries in our region. At the level of real income, we made up for nearly half the distance to the highly developed countries of Western Europe. In the past 25 years, the volume of Poland's foreign trade has increased by more than ten times, and in recent years we ceased to be a net importer, recording a positive balance in the trade in goods (trade in services has for years been positive). The Polish złoty is a stable currency that enjoys the trust of the society and inflation has stabilised below the central bank's target rate of 2.5%. Poland's economy is highly integrated with the rest of the EU and there has be a veritable explosion of entrepreneurship. Polish companies are increasingly expanding abroad. Some opinions have appeared, shared by the author of this essay, that the past 25 years represent the 'golden period' of the Polish economy, unprecedented in the entire history of our country.

However, a fully balanced account of this period must also take into account the significant weaknesses or even failures of Polish reforms. Some of these were so serious that the slogan 'Poland in ruins' was embraced by substantial portion of the electorate during the 2015 electoral campaign (although its authors readily abandoned it after winning the elections) and the elections have been interpreted as a rejection of the transformation's achievements by many citizens. We must remember that the social costs of transformation (albeit lower than in most of the countries in our region) were high, much higher than expected. Growing unemployment was a shock to society, and in addition, it turned out that finding a new job was very difficult, especially in rural areas and in cities dependent on a few large employers. Structural unemployment appeared, and unfortunately, it became firmly established. In fact, a distinct improvement in this area has occurred only in recent years, and the problem of unemployment has practically disappeared. In addition, it should be noted that the hard, liberal course of reforms was associated with creating preferential conditions for entrepreneurship at the expense of the labour force. In the labour market, the priority was to increase flexibility, which often meant hardship for the people. The pressure to reduce tax burdens and social contributions also hindered a more ambitious social policy. The share of wages in GDP decreased, and income distribution (measured by the Gini coefficient) grew in the first 15 years of the transformation. The concept of 'stunt capitalism' appeared, with a negative connotation. Frustration deepened among some young people, who after obtaining formal higher education were not able to fulfil their aspirations. The large scale of emigration considerably reflected the alienation of a part of society and the conviction that the new system had failed to bring equal benefits and create equal opportunities for everyone. Even if many of the above-mentioned failures in our development are just relative, there is no doubt that economic policy, and above all social policy, must undergo substantial modifications so that all Poles can feel that they are beneficiaries of the transformation.